



Vietnam: Defense Market Opportunities

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Summary

In recent past the regulatory framework has improved for exporting U.S. defense equipment and services to Vietnam, opening up notable commercial opportunities for American firms. Previously deterred by the U.S. government prohibition on exports and sales of defense equipment to Vietnam, no licenses, other approvals, exports or imports of defense articles and defense services destined for or originating in Vietnam was accepted prior to 2007.

Changes in U.S. law and regulations governing defense equipment, bolstered by Vietnam's entry into the World Trade Organization (WTO), the US-Vietnam Bilateral Trade Agreement (BTA), and especially the December 2006 U.S. Presidential Determination are leading to a more transparent and open market for U.S. products. As a result, prospects for engaging in defense equipment and services sales in Vietnam are expected to become much more attractive.

Market Demand

In recent years, Vietnamese political and military leaders have given priority to preventing the further deterioration of its stock of military weapons and equipment. Vietnam has sought out sources of spare parts and foreign assistance to maintain, refurbish and upgrade its defense equipment inventory. As a secondary priority, Vietnam has also sought access to relevant modern military technology and its transfer to Vietnam's own national defense industry through joint ventures and co-production. In trying to attain these twin objectives – maintenance and modernization – Vietnam has been constrained by cost, compatibility and U.S. national security trade restrictions.

Other areas of priority for the Vietnamese military are the protection and surveillance of its coastline, which stretches the entire length of the country (3,444 km), and search and rescue operations. In recent years, the Vietnamese military has played an increasingly important role in prevention and rescue efforts related to natural disasters (hurricanes, flooding, landslides, etc.) and humanitarian response.

Market Data

From the 1970s to 1991, the Soviet Union was the main supplier of military hardware to Vietnam. After 1975 the Vietnam People's Army (VPA) inherited equipment abandoned by the U.S. Army and Army of the Republic of Vietnam, most of which was imported from the United States. Since 1991, the Chinese have been the biggest supplier of military goods to Vietnam.

The Vietnamese have also produced their own equipment and repaired existing equipment.

Vietnam's defense budget is a state secret. Vietnam only rarely provides information on arms procurements, servicing agreements and defense industry cooperation. For example, Vietnam has submitted reports on arms imports and exports for inclusion on the United Nations Register of Conventional Weapons annually since 1994. During this period Vietnam reported arms imports for only four years, 1995, 1997, 2004 and 2005. Vietnam submitted 'nil' reports for all the other years.

Until November 1998 Vietnam was constrained in its arms and equipment purchases by United States national security legislation that prevented the sale of military equipment to Vietnam that incorporated U.S. technology.

Until the U.S. ban was lifted, Vietnam was basically forced to look to those countries that had compatible Soviet-made equipment. That did not prevent Vietnam, however, from testing the market. Cost and compatibility have governed Vietnam's arms and military equipment purchases.

Reports to United Nations Register of Conventional Arms ¹						
Country	2001	2002	2003	2004	2005	2006
Exports Reported to Vietnam	nil	nil	nil	4 combat aircraft, 20 missiles and missile launchers ²	5 Su-22 UM3 ³ 3Su-22 ⁴	nil
Imports Reported by Vietnam	nil	nil	nil	4 combat aircraft, 20 missiles and missile launchers	12 missile launchers, 62 S-300 missiles	nil
Notes						
<p>1 The UN Conventional Register of Conventional Arms records data provided by countries that export and import weapons in seven general categories; battle tanks, armoured combat vehicles, large caliber artillery systems, combat aircraft, attack helicopters and missiles and missile launchers.</p> <p>2 Report by the Russian Federation for calendar year 2004.</p> <p>3 Report by the Czech Republic for calendar year 2005.</p> <p>4 Report by Ukraine for calendar year 2005.</p>						

Best Prospects

New regulation has created new opportunities for US defense equipment sales in the following fields:

- Maritime security (including regional initiatives) and border security;
- Humanitarian disaster response, including emergency rescue and medical training;
- Peacekeeping training and operations;
- Demining and unexploded ordnance efforts; and
- Enhanced POW/MIA accounting progress.
- Communications technologies

Potentially strong demand for U.S. defense equipment exists in Vietnam, especially for spare parts to upgrade used U.S equipment left after the war, e.g. spare parts for UH1 helicopters. Potential sales also exist for search and rescue helicopters, patrol boats, telecommunications, defense equipment for training, ATC parts, and military medical care.

Competitive suppliers have traditionally been from Russia, Ukraine, China, France and U.K. Keys to success for a defense product in Vietnam's market have typically included: financing support/options, long-term logistical support, technology transfer, patience and a strong partner with key relationships with major decision makers.

Key Suppliers

Because Vietnam's military was equipped with Soviet-designed equipment, Vietnam first had to negotiate affordable commercial contracts with Russian state arms manufacturers. The break-up of the Soviet Union opened up alternate sources of Soviet-era equipment. Due to continual pricing difficulties with Russian authorities, Vietnam turned to the Ukraine and established strong defense industry and arms procurement relations. The

Ukraine then emerged as the major competitor to the Russian Federation for arms sales to Vietnam. Additionally, Vietnam sought out opportunities among the states of the former Warsaw Pact, most notably Belarus, Bulgaria, the Czech Republic, Poland and Slovakia. Other key suppliers include China, France and U.K.

Prospective Buyers

The **Vietnam People's Army (VPA)** is official name for the armed forces of the Socialist Republic of Vietnam. The VPA now includes the: Vietnam People's Ground Forces (including VPA Strategic Rear Forces and Border Defense Forces), Vietnam People's Navy (including VPN Naval infantry), Vietnam People's Air Force, and Coast Guard.

During peaceful periods, the VPA has been actively involved in Vietnam's workforce to develop the economy of Vietnam, "in order to coordinate national defense and the economy." The VPA has regularly sent troops to aid with natural disasters such as flooding, landslides etc. The VPA is also involved in such areas as industry, agriculture, forestry, fishery, and telecommunications.

Defense Minister General Phung Quang Thanh oversees operations of the VPA and is the Commander-in-Chief. He also oversees such agencies as the General Staff and the General Logistics Department.

The Foreign Relations Department of the Ministry of Defense organizes international operations of the VPA. The Planning and Commerce Department of MOD oversees and manages import-export of defense equipment and services.

The Vietnam People's Army comprises various units of the main forces, local forces and the People's Defense Forces. It is subdivided into the following branches:

- Vietnam People's Air Force
- Vietnam People's Navy
- Vietnam Ground Force
- Vietnam People's Coast Guard

As mentioned above, reserves exist in all branches and are organized in the same way as the standing forces, with the same chain of command, and with officers and non-commissioned officers.

1) Vietnam People's Air Force (VPAF) is the air force of Vietnam. This is one of the country's foremost line of defense against foreign aggression. Its mission is to conduct immediate and sustained air operation, aerial survey and surveillance operations.

Most of the VPAF's aircraft were from the Soviet Union, but some were left over from the US after the war.

In the years between 1953 and 1991, 700 warplanes, 120 helicopters, and 158 missile complexes have been supplied to Vietnam from the USSR. Even today, three-quarters of Vietnamese weaponry has been made in post-Cold-War Russia. Today the VPAF is in the midst of modernization. It still operates late model Mig-21s, Su-22s, aircraft of the cold war era. However, it has recently been modernizing its air force with models of the Su-27 air superiority fighter following closer military ties and an array of arms deals with Russia.

2) Vietnam People's Navy is part of the Vietnam People's Armed Forces and is responsible for the protection of national waters, islands, and interests of the maritime economy, as well as for the coordination of maritime police, customs service and the border defense force.

Most of the Navy's cruises and equipment is from Russia, some are from U.S., China. Larger transport ships of the Navy include the Truong Sa class ship which was built by the state-owned shipbuilding firm, VINASHIN.

3) Vietnam People's Ground Force: is the land force of the VPA. The primary responsibilities of the Ground Forces are the protection of the state border, combat on land, the security of occupied territories, and the defeat of enemy troops. It also plays an important role and actively been involved in Vietnam's workforce to develop the economy, in order to coordinate national defense and the economy. Troops are regularly sent to aid with natural disasters such as flooding, landslides etc. and are also involved in such areas as industry, agriculture, forestry, fishery, and telecommunications.

4) Vietnam People's Coast Guard is a part of Vietnam People's Army. The Coast Guard is responsible for protecting the security of Vietnam's coast line. It deals with problems like:

- drug smuggling
- maritime law enforcement
- marine assistance
- search and rescue
- national defense - alongside the Vietnam People's Navy

Commercial Enterprises

Just after Vietnam was admitted into the World Trade Organisation (WTO), the Vietnam Communist Party Central Committee held its fourth plenary session from January 15-24, 2007. This meeting took the decision to order the party, the army, police and regime-approved mass organizations to divest themselves of their commercial enterprises. Ownership will reportedly be transferred to a holding company which will make a determination about which enterprises will be equitised and sold to private investors.

The Vietnam People's Army, for example, currently runs 140 enterprises and holds shares in another twenty companies. These enterprises are engaged in an incredibly diverse range of economic activities from coffee production, coal mining, garment manufacture, stock broking, and telecommunications to health services. In 2006, army-run enterprises earned US \$2 billion in revenue or 3 percent of Vietnam's Gross Domestic Product (GDP). Divestiture will touch on sensitive sources of funding for the military at a time when developments in the South China Sea seemingly demand an increase in defense expenditures.

In 2006, the the 10th National Party Congress adopted a resolution decreeing that Vietnam's maritime economy should be strongly developed with a focus on sectors that have comparative advantages in order to develop a strong maritime economy, maintain national defense and security in a spirit of international cooperation. This matter was considered by the fourth plenum of VCP Central Committee that met in January 2007. Reports submitted to this meeting noted that there was no coherent plan to integrate the economic development of coastal areas with the exploitation of marine resources in Vietnam's territorial waters. Economists estimated that by 2020, the marine economy would contribute up to 55 percent of GDP and between 55-60 percent of exports.

Market Entry

U.S. Regulation

Following the Presidential Determination of December 29, 2006, U.S. policy on arms transfers toward Vietnam now permits the sale, lease, export, or other transfer, on a case-by-case basis, of non-lethal defense articles and defense services to Vietnam.

For the purposes of the policy, “non-lethal defense articles” means an article that is not a weapon, ammunition, or other equipment or material that is designed to inflict serious bodily harm or death.

The export of the following defense articles and defense services will not be approved:

- lethal end items;
- components of lethal end items, unless those components are non-lethal, safety-of-use spare parts for lethal end items;
- non-lethal crowd control defense articles and defense services; and
- night vision devices to end-users with a role in ground security.

This new policy applies to both government-to-government sales (Foreign Military Sales or FMS), as well as commercial sales by U.S. industry (Direct Commercial Sales or DCS). Each request by the Government of Vietnam for purchase of or by private U.S. industry to sell defense articles and services will be considered on a case-by-case basis and evaluated to ensure they meet U.S. foreign policy goals and all applicable U.S. laws, regulations, and treaty commitments.

Vietnam’s Regulation

The new commercial law, which was passed by Vietnam’s National Assembly and took effect on 1 January 2006, has provided for a legal and regulatory climate more conducive to the development of business in general and was followed by Government issued Decree 12/2006/ND-CP which guides all international trade activities, including import-export equipment in the field of defense. Basically, Vietnam's new regulation assigned the MOD to manage all import-export activities of defense equipment and services. Only the Minister of Defense has the authority to grant licenses to companies to import-export defense products. In addition, all imported defense equipment and services contracts have to be approved by defense officers under MOD’s offices.

US-Vietnam Defense Cooperation

1) *Department of Defense Humanitarian Assistance (HA) Programs in Vietnam*

The United States Department of Defense’s Overseas Humanitarian, Disaster and Civic Aid (OHDACA) programs constitute a pillar of U.S. military efforts to build cooperative relationships with both allies and friends, and to develop indigenous capabilities that promote regional stability. By reaching out to stave off the consequences of disasters and to mitigate human suffering, the U.S. Government strives to demonstrate the depth of America’s compassion and generosity in a practical manner. OHDACA programs include Foreign Disaster Relief and Emergency Response, Humanitarian Mine Action, and Humanitarian Assistance components.

2) *US-Vietnam Navy Forces’ agreement to boost cooperation*

American and Vietnamese navy forces have boosted bilateral cooperation in search and rescue as well as humanitarian assistance. The agreement of the cooperation was reached on January 22, 2007 by Deputy Chief of the General Staff of the People’s Army of Viet Nam, Nguyen Duc Soat, and US Pacific Fleet Commander, Admiral Gary Roughed, to exchange information and cooperation in hydrometeorology, natural calamity warning, maritime security and medicine.

Market Issues & Obstacles

The Vietnam's Ministry of Defense (MOD) limits the number of businesses in import-export defense equipment. According to the Ministry of Defense's decision No. 84, dated May 18, 2007 regulating the Import-Export of defense equipment, General Import-Export Vanxuan Corporation (VAXUCO), a military goods importer owned by the MOD, is the only designated importer for the MOD for non dual-use military goods, and is authorized to sign purchases on behalf of the MOD. There are few other State-Owned Enterprises that can import dual-use goods for MOD, but VAXUCO is the only authorized non dual-use importer. Other importers of dual-use military goods including Tecapro and GAET, both are enterprises under the Ministry of Defense

Resources & Contacts

Vietnam Ministry of Defense

Foreign Affairs Division

Address: 33A Pham Ngu Lao Street, Hanoi, Vietnam

Tel: 844-825-3646/844-933-2501

Fax: 844-825-9990

Website: <http://www.qdnd.vn/army/home.qdnd>

The Foreign Relations Department of the Ministry of National Defense organizes international operations of the VPA.

Office of Defense Attaché – US Embassy

Address: US Embassy, 7 Lang Ha Street, Hanoi, Vietnam

Tel: 844-3850-5000

Fax: 844-3850-5010

Website: <http://hanoi.usembassy.gov/defenseattache.html>

As the senior military office in country, the Office of Defense Attaché (DAO) assists in coordinating the implementation of U.S. military policy and represents the interests of the Secretary of Defense, Commander of U.S. Pacific Command, and the Service Chiefs. The DAO is consequently responsible for analyzing and reporting military developments in Vietnam in the context of evolving global and regional security conditions in order to inform the evolution of military policy towards Vietnam and Southeast Asia. The DAO also coordinates all security cooperation activities between the U.S. military and those of Vietnam in both bi-lateral and multilateral fora and in all spheres of military activity.

VAXUCO – General Import-Export Vanxuan Corporation

Address: 1B Hoang Dieu Street, Hanoi, Vietnam

Tel: 844-3845-5143

Fax: 844-3823-2939

General Import-Export Vanxuan Corporation (VAXUCO), a military goods importer owned by the MOD, is the only designated importer for the MOD for non dual use military goods, and is authorized to sign purchases on behalf of the MOD.

TECAPRO – Technological Application and Production

Address: 18A Cong Hoa Street, Tan Binh District, Hochiminh City, Vietnam

Tel: 848-3811-0181

Fax: 848-3811-0688

<http://www.tecapro.com.vn/>

Technological Application and Production (Tecapro), a military goods importer owned by the MOD, is authorized to import dual military equipment. The company is specialized in importing telecommunication equipment for military and providing technical supports.

GAET Company

Address: 102 Kim Ma Thuong Street, Cong Vi, Ba Dinh Dist., Hanoi, Vietnam

Tel: 844-3832-5377

Fax: 844-3832-7710

<http://www.ckt.gov.vn/gaet>

GAET also is a military goods importer owned by the MOD, and could import dual defense equipment.

Vietnam Telecommunication Corporation

Address: 50 Nguyen Chi Thanh Street, Hanoi, Vietnam/103 Dang Tien Dong St., Hanoi, Vietnam

Tel: 844-3775-3846

Fax: 844-3775-3847

<http://www.vietnamtelecom.org.vn>

Vietnam Telecommunication Corporation is a privatized company previously under the Ministry of Information and Communication. The company is specialized in information and telecommunication, and providing a wide ranges of consulting and after sales services of foreign telecommunication firms to the Ministry of Defense of Vietnam.

For More Information

The U.S. Commercial Service in Vietnam can be contacted via e-mail at: Ha.Anh@mail.doc.gov ; Phone: 844-3831-4650; Fax: 844-3831-4540; or visit our website: www.buyusa.gov/vietnam

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